

Contents

Officers and professional advisers	2
Chairman's statement	3
Directors' report	5
Corporate governance	9
Statement of directors' responsibilities	10
Independent auditors' report	11
Consolidated profit and loss account	12
Statement of total recognised gains and losses	13
Note of historical cost profit and losses	13
Consolidated balance sheet	14
Company balance sheet	15
Consolidated cash flow statement	16
Notes to the accounts	17
Notice of meeting	35

Inside Front Cover

(a) Delcam's Power Solution is widely used by companies within the Aerospace sector developing products such as the European Fighter Aircraft.

(b) Delcam's PowerMILL is used by toolmakers worldwide to programme CNC (Computer Numeric Control) Machine Tools used to produce the tooling required to produce all moulded, pressed or stamped products.

(c) PowerSHAPE advanced design and rendering tools allow users to visualize the most complex new product designs on the computer screen before they are manufactured.

Inside Back Cover

(d) Delcam's PowerMILL software now includes '5 Axis Machining', developed to allow companies to reduce their time to market, reduce production costs and increase product quality.

(e) Lotus Cars use Delcam's software to ensure the quality of their high performance cars.

Officers and Professional Advisers

2

Directors

T R M Kinsey
(Chairman, non-executive)

P T Miles
(Non-executive)

H R O Humphreys OBE
(Managing Director)

E B Lambourne
(Technical Director)

C P Martell
(Managing Director, UK Division)

K Singh
(Finance Director)

Secretary and Registered Office

K Singh,
Talbot Way,
Small Heath Business Park,
Birmingham,
B10 0HJ

Nominated Broker and Nominated Adviser

Williams de Broë Plc,
1 Waterloo Street,
Birmingham,
B2 5PG

Bankers

Barclays Bank PLC,
PO Box No. 3333,
15 Colmore Row,
Birmingham,
B3 2WN

Solicitors

Wragge & Co.,
55 Colmore Row,
Birmingham,
B3 2AS

Auditors

Deloitte & Touche,
Chartered Accountants,
Colmore Gate,
2 Colmore Row,
Birmingham,
B3 2BN

Registrars

Neville Registrars Limited,
Neville House,
18 Laurel Lane,
Halesowen,
West Midlands,
B63 3DA

Chairman's Statement

FINANCIAL HIGHLIGHTS

I am very pleased to report that Delcam's sales continued to grow during 2001 to £18.2 million compared with £17.0 million during 2000, an increase of 7.3%. After record sales and profits in the first half of the year, performance in the second half showed considerable variation. The rate of growth was affected by the events of 11 September 2001 and the generally poor economic conditions in the USA and the UK. The Company announced the decline in sales in September and October 2001 with the consequential fall in profitability but although sales significantly improved in November and December, with the latter being a record month for software sales, this was not sufficient to recover the loss of profits from those two critical months.

The Company had already taken the strategic decision to increase its investment in R & D, marketing and people, as further explained below, resulting in a profit before tax for the year of £0.85 million, compared with £1.64 million for 2000. The Company is confident that these investments will increase future sales and therefore the Board is proposing to marginally increase the level of dividends for the full year. Basic earnings per share were 9.9p compared with 20.2p last year.

DIVIDEND

The Board proposes to pay a final dividend of 2.4p per ordinary share (2000 — 2.4p), making the dividend for the full year 3.35p per share (2000 — 3.25p per share). It will be paid on 9 May 2002 to shareholders on the Register as at 5 April 2002. The shares are expected to be quoted ex dividend on 3 April 2002.

REVIEW

Delcam has maintained its progress as the leading international supplier of complete, automated CAD/CAM systems for the design, manufacture and inspection of complex shapes. We have increased our investment in product development, marketing and sales network. Total spending on R & D over the year increased by over £300,000, enabling the release of new and improved software throughout the year. Marketing expenditure was increased by £350,000. The increased activity included participation in more than 60 exhibitions worldwide. This continued high level of investment, while affecting our short-term profitability, is essential for achieving our longer term sales and profit goals.

Our Sales Partners continued to strengthen and grow, with over 80 additional sales and support staff recruited in the year to help increase our sales and to provide additional support to our customers.

Products

Our investment in product development has allowed us to release significant new versions of all of our software during the year. Major upgrades were released of our key products — the design software PowerSHAPE and our machining software PowerMILL. In addition to enhancements to the core software, new PowerSHAPE modules were released for advanced product design, and for electrode and injection mould design. Developments in PowerMILL have reinforced Delcam's leading position in more demanding machining operations, such as high-speed machining and five-axis machining, as well as improving our competitiveness in the mainstream three-axis machining area. The markets for our PowerINSPECT inspection software and the CopyCAD reverse engineering system have continued to grow, both by increasing their functionality and by expanding the range of equipment with which they can be used. Our ArtCAM software for engraving and routing has also seen strong growth, particularly in the jewellery industry and in the North American signmaking industry.

A new product, PS-Team, for project and team management, has been introduced and early response has been encouraging. This new software is a web-based on-line collaboration product suitable for a wider range of customers than those using our CAD/CAM software.

Chairman's Statement (continued)

4

European subsidiaries

The organisational changes we have made to manage our European subsidiaries in UK, Italy, France and Germany, as a separate division, have been very successful. German sales increased by 43%, Italian sales increased by 20% and French sales increased by 42%. Recruitment continued in both France and Germany, to staff the additional offices opened in both countries during the second half of the year. UK software sales remained steady despite the problems being experienced by manufacturing industry but there was some reduction in UK service income.

The acquisition of the Alcami jewellery service bureau during the year has added an additional revenue stream and has contributed to the growth of our software sales to the jewellery industry.

Rest of Europe

Better results were seen in all the other countries in which we operate, with the exception of Denmark. The continuing recovery in Russia helped to generate a strong growth in software sales. Significant improvements in software sales also occurred in Austria, up 89%, the Czech Republic, up 47%, and Sweden, up 26%.

The Americas

The expansion of our Sales Partner network has continued in North America, the world's largest market for CAD/CAM software. We increased our expenditure in the region by over £200,000, with more extensive marketing and improved technical support for our customers. Trading conditions have been extremely difficult as a result of the economic slowdown and the events of 11 September. These problems have temporarily restricted our software sales growth to 2.7%. However, this should be considered a very satisfactory performance, as we believe that many of our competitors have seen a decline in their sales.

South America was adversely affected by the economic problems in the USA throughout 2001, although there were some signs of improvement towards the end of the year. Software sales in Brazil saw a small increase, while both Mexico and Argentina experienced a significant decline.

The Far East

Software sales in both Japan and Korea, the two largest markets in this region, have seen only modest growth from 2000. Software sales in Taiwan recovered well in the second half of the year, while those in Hong Kong more than doubled over the previous year. The Indian branch office continued the excellent sales shown in the first half of the year. A new division of the branch offering CAD/CAM services was established towards the end of the year.

PROSPECTS

The Board believes that as a result of our increased investments in product development and marketing last year, we start 2002 in a strong competitive position. Whilst the outlook in many of our markets remains uncertain, the recovery in orders at the end of last year and the level seen at the start of the current year give me confidence that we will see an improved financial result this year. I would like to thank the staff for their hard work and contribution in 2001.

T R M KINSEY

Chairman

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Group are the supply of CAD/CAM systems and services for the design of products with complex shapes and their manufacture with tooling. The Chairman's report provides a review of activities, development and progress of the Group.

The Group undertakes significant research and development expenditure which amounted to £4,021,359 during the year (2000 — £3,644,057) and will benefit from the new research and development tax allowances in the United Kingdom.

DIVIDENDS AND TRANSFERS TO RESERVES

An interim dividend of £58,446 was paid in the year (2000 — £50,790). The directors recommend the payment of a final dividend of £145,067 (2000 — £143,539). Profits transferred to reserves are £393,773 (2000 — £1,008,205).

DIRECTORS AND THEIR INTERESTS

Included on the Board of Directors are two non-executive directors, a number which is considered appropriate for a group of this size.

T R M Kinsey is the non-executive Chairman. He joined the Company as Chairman in 1989. He has been a non-executive director of several companies and is a Fellow of the Royal Academy of Engineering.

P T Miles was appointed as a non-executive director in April 1997. He is a former corporate finance partner in Deloitte & Touche. He serves as a non-executive director to several companies.

The directors who served during the year and the beneficial and family interests of those serving at the end of the year in the shares of the Company are as follows:

	Ordinary shares of 10p each		Ordinary C shares of 10p each	
	2001	2000	2001	2000
T R M Kinsey	36,997	35,330	—	1,667
P T Miles	132,500	117,500	—	—
H R O Humphreys	955,243	953,576	—	1,667
E B Lambourne	918,304	916,637	—	1,667
C P Martell	142,872	163,006	—	1,667
K Singh	30,466	35,246	—	1,667

There were no changes in the directors' shareholdings after the year end.

In accordance with the Company's Articles of Association, H R O Humphreys and C P Martell retire by rotation and, being eligible, offer themselves for re-election. Both directors have service contracts which expire by serving 12 months' notice of termination.

Directors' Report (continued)

6

DIRECTORS AND THEIR INTERESTS

Share option schemes

The Company has continued to operate three share option schemes for its employees.

(i) *Approved Scheme*

On 6 June 1997 approved share options were granted in respect of Ordinary shares (formerly 'A' Ordinary shares), which represented 230,386 Ordinary shares in aggregate, to employees and directors at an exercise price of 280p (168p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share and unapproved options were granted for Ordinary shares which represented 19,199 Ordinary shares in aggregate to employees and directors at an exercise price of 20p (diluted to 12p) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

11,088 Options were exercised during the year at an exercise price of 168p and 924 options were exercised at an exercise price of 12p (note 22).

224,259 options of 168p and 18,684 options of 12p were yet to be exercised at the year end.

(ii) *Unapproved Scheme*

On 6 June 1997 unapproved share options were granted in respect of Ordinary shares, which represent 25,890 Ordinary shares in aggregate, to employees and directors at an exercise price of 260p (156p following dilution resulting from the bonus issue on 15 July 1997) per Ordinary share. The options are exercisable within the period of 3 to 10 years following the date of grant.

The unapproved scheme is for employees who were granted options for which the aggregate market price of Ordinary shares exceed £30,000.

No options were exercised during the year. Options remaining to be exercised were 16,506.

(iii) *Share Save Scheme*

The Share Save Scheme ended on 31 January 2001 and during the year 47,907 'C' Ordinary shares were fully paid and issued to employees and directors after converting to 47,907 Ordinary shares. The remaining 78,660 'C' Ordinary shares have been allotted to Delcam Trustees Limited.

Directors have interests in the approved and unapproved share option schemes as follows:

	Options held		Options held		Date from	
Approved scheme	31 Dec 2000	Exercise price	31 Dec 2001	exercisable	which	Expiry date
<i>Approved options</i>						
C P Martell	1,229	168p	1,229	6.6.2000		5.6.2007
K Singh	3,077	168p	3,077	6.6.2000		5.6.2007
<i>Unapproved options</i>						
C P Martell	102	12p	102	6.6.2000		5.6.2007
K Singh	256	12p	256	6.6.2000		5.6.2007
Unapproved scheme						
T R M Kinsey	1,333	156p	1,333	6.6.2000		5.6.2007
H R O Humphreys	1,333	156p	1,333	6.6.2000		5.6.2007
E B Lambourne	1,333	156p	1,333	6.6.2000		5.6.2007

At 31 December 2001 the market price of the shares was 142.5p. During the year the shares traded between a low of 127.5p and a high of 222.5p. As at 19 March 2002, no further share options have been granted to the directors.

Directors' Report (continued)

SERVICE CONTRACTS

Executive directors have service contracts with the Company that expire by serving 12 months' notice of termination.

Non-executive directors have service contracts with the Company that expire by serving six months' notice of termination.

DELCAM EMPLOYEE BENEFIT TRUST

On 25 February 1997 the Company approved, adopted and established the Delcam Employee Benefit Trust. A summary of the Trust Deed is as follows:

- (a) It has been established that the original trustee is a company wholly owned and controlled by Delcam and called Delcam Trustees Limited.
- (b) A beneficiary of the Delcam Employee Benefit Trust is any person who at a material time is a bona fide employee, a former employee of any Group company, or the husband, wife, widow, widower or child (except child under 18 years of age) of any bona fide employee or former employee of a Group company.
- (c) Any company within the Group may from time to time at its sole discretion transfer pay or credit sums of money to the Trustees to be held in the terms of the Delcam Employee Benefit Trust.
- (d) The primary objectives of the Delcam Employee Benefit Trust are to hold the capital and income of the trust fund upon trust for all or such of the beneficiaries.

The Trustees may accumulate the income of the trust fund by investing it and may apply the income of the trust fund to or for the benefit of all beneficiaries as the Trustees may from time to time in their absolute discretion think fit.

During the year Delcam Trustees Limited purchased shares in Delcam Plc. Details are given in note 13 to these financial statements.

SUBSTANTIAL SHAREHOLDINGS

At 20 March 2001, so far as the Company is aware, the only persons, other than directors, holding an interest comprising 3% or more of the Ordinary share capital of the Company were:

	Number of Ordinary shares	Percentage of issued share capital
S M Hobbs	291,233	4.82
N K Whalley	360,714	5.97

EMPLOYEES

It is Group policy to provide employment opportunities and retraining where possible for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy.

The Group has well-established structures and procedures for consultation, communication and negotiation with its employees, appropriate to the company concerned. Importance is placed on this aspect of the business and all managers have a responsibility to this end.

Directors' Report (continued)

POLICY ON PAYMENT OF CREDITORS

It is the Group's practise to agree payment terms with its suppliers. Payment is made when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. At 31 December 2001, the Group's trade creditors represented 47 days (2000 — 48 days) of annual purchases.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments are amounts receivable from customers, cash, foreign currency, bank overdrafts and bank loans.

The Group's policy for the financing of its business is principally by the use of a mixture of share capital, retained earnings and bank borrowings.

No interest rate hedging or trading in financial instruments was entered into during the year under review.

Credit risk

The Group relies on maintaining a high quality customer base and places emphasis on good credit management.

Cash flow risk

This is managed by strict control over debtors and application of credit limits.

Interest rate risk

At the present time, the directors do not consider it necessary to use other measures to control this risk. The Group does not have significant overseas borrowings.

Liquidity risk

The Group's assets are principally financed by secured floating rate bank loans and overdrafts. Interest on the bank facilities is payable at variable rates above United Kingdom base rates.

Foreign currency risk

The Group has overseas subsidiaries as detailed in note 13. Their revenues and expenses are denominated substantially in their local currencies.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

The directors draw your attention to resolution 6 set out in the Notice of meeting on page 35. The special resolution will be proposed to allow the directors to make market purchases of ordinary shares in the capital of the Company. Once purchased, the shares will be treated as cancelled and the issued share capital of the Company will be reduced by that amount. The authority is limited to not more than 10% of the current issued share capital.

The directors will only exercise this authority in circumstances where the directors believe it would result in an increase in earnings per share and would be in the best interests of the shareholders generally.

The directors will propose to renew authority to disapply section 89 of the Companies Act 1985 pre-emption rights as set out in resolution 7.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors on 21 March 2002
and signed on behalf of the Board

K SINGH

Secretary

Corporate Governance

As a company listed on the Alternative Investment Market of the UK Listing Authority, Delcam Plc is not required to comply with the Combined Code (“the Code”) adopted by the UK Listing Authority. However, the Board of directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of Delcam and the nature of its operations.

The Audit Committee comprising the two non-executive directors Mr T R M Kinsey and Mr P T Miles has met twice during the year.

The directors also acknowledge their responsibility for the Group’s system of internal control of which the objectives are:

- a) Safeguarding Group assets.
- b) Ensuring proper accounting records are maintained.
- c) Ensuring that the financial information used within the business and for publication is reliable.

The key procedures that have operated during the financial year are set out below:

- a) The Board meets regularly to review all aspects of the Group’s performance concentrating mainly on financial performance, business risks and development.
- b) A number of matters are reserved for the Board’s specific approval including major capital expenditure, banking and dividend policy.

In establishing the systems of internal control, the directors have implemented a control environment, risk management procedures and reporting processes appropriate to the size of the Group. Further procedures will continue to be adopted in respect of all the Group’s activities, especially those overseas to further improve financial control.

After making appropriate enquiries that the Group has adequate resources to continue in operation for the foreseeable future, the Board considers that the Group’s finances are sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Remuneration Committee consists of two non-executive directors, Mr T R M Kinsey and Mr P T Miles.

At present the committee annually reviews the level of directors’ remuneration packages. Disclosure of directors’ remuneration is provided in note 3 to the financial statements.

The remuneration of the non-executive directors is determined by the Board.

Statement of Directors' Responsibilities

10

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the members of Delcam Plc

We have audited the financial statements of Delcam Plc for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, and the related notes 1 to 30 together with the reconciliation of net cash flow to movement in net debt and the note of historical cost profit and losses. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Birmingham
21 March 2002

Consolidated Profit and Loss Account

12

YEAR ENDED 31 DECEMBER 2001

	Note	2001 £	2000 £
TURNOVER	2	18,248,122	17,011,059
Cost of sales		<u>(5,940,513)</u>	<u>(5,698,556)</u>
Gross profit		12,307,609	11,312,503
Distribution costs		(4,177,094)	(4,241,112)
Administrative expenses		(7,411,844)	(5,596,080)
Other operating income		<u>269,995</u>	<u>246,903</u>
OPERATING PROFIT	4	988,666	1,722,214
Income from interest in associates		102,740	83,727
Interest receivable and similar income	5	22,772	20,291
Amounts written off fixed asset investments	13	(104,000)	—
Interest payable and similar charges	6	<u>(156,613)</u>	<u>(183,378)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		853,565	1,642,854
Tax on profit on ordinary activities	7	<u>(293,914)</u>	<u>(512,949)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		559,651	1,129,905
Equity minority interests	21	<u>37,635</u>	<u>72,629</u>
PROFIT FOR THE FINANCIAL YEAR	8	597,286	1,202,534
Dividends	9	<u>(203,513)</u>	<u>(194,329)</u>
RETAINED PROFIT FOR THE YEAR	23	<u>393,773</u>	<u>1,008,205</u>
Basic earnings per Ordinary share	10	<u>9.9p</u>	<u>20.2p</u>
Diluted earnings per Ordinary share	10	<u>9.7p</u>	<u>19.6p</u>
Net dividend per share	9	<u>3.35p</u>	<u>3.25p</u>

All activities derive from continuing operations.

JOB 1700 — PROOF 04 — 03.04.2001

Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 2001

13

	Group	
	2001	2000
	£	£
Profit attributable to members of the Company	597,286	1,202,534
Foreign exchange translation differences on foreign currency net investment in subsidiaries and associated undertakings	<u>(22,544)</u>	<u>(9,838)</u>
Total recognised gains for the year	<u>574,742</u>	<u>1,192,696</u>

Note of Historical Cost Profit and Losses

YEAR ENDED 31 DECEMBER 2001

	2001	2000
	£	£
Profit on ordinary activities before taxation	853,565	1,642,854
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>49,867</u>	<u>49,867</u>
Historical cost profit on ordinary activities before taxation	<u>903,432</u>	<u>1,692,721</u>
Historical cost profit for the year retained after taxation and dividends	<u>443,640</u>	<u>1,058,072</u>

JOB 1700 — PROOF 04 — 03.04.2001

Consolidated Balance Sheet

14

AS AT 31 DECEMBER 2001

	Note	2001		2000	
		£	£	£	£
FIXED ASSETS					
Intangible assets	11		84,406		—
Tangible assets	12		6,360,443		6,494,072
Investments	13		<u>766,145</u>		<u>511,587</u>
			7,210,994		7,005,659
CURRENT ASSETS					
Stocks	14	186,335		159,673	
Debtors	15	4,982,143		4,394,456	
Cash at bank and in hand		<u>526,788</u>		<u>782,136</u>	
		5,695,266		5,336,265	
CREDITORS: amounts falling due within one year					
	16	<u>(3,657,718)</u>		<u>(3,320,181)</u>	
NET CURRENT ASSETS					
			<u>2,037,548</u>		<u>2,016,084</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			9,248,542		9,021,743
CREDITORS: amounts falling due after more than one year					
	17		(775,331)		(1,154,469)
PROVISION FOR LIABILITIES AND CHARGES					
	19		(150,043)		(111,082)
DEFERRED INCOME					
	20		(1,191,663)		(972,780)
EQUITY MINORITY INTERESTS					
	21		<u>(12,056)</u>		<u>(64,331)</u>
			<u>7,119,449</u>		<u>6,719,081</u>
CAPITAL AND RESERVES					
Called up share capital	22		612,314		610,535
Share premium account	23		1,919,801		1,892,441
Revaluation reserve	23		2,352,957		2,402,824
Other reserves	23		1,421		7,559
Profit and loss account	23		<u>2,232,956</u>		<u>1,805,722</u>
SHAREHOLDERS' FUNDS					
	24		<u>7,119,449</u>		<u>6,719,081</u>
Non-equity shareholders' funds			7,866		12,657
Equity shareholders' funds			<u>7,111,583</u>		<u>6,706,424</u>
TOTAL SHAREHOLDERS' FUNDS					
			<u>7,119,449</u>		<u>6,719,081</u>

These financial statements were approved by the Board of directors on 21 March 2002.

Signed on behalf of the Board of directors

H R O HUMPHREYS

Director

Company Balance Sheet

AS AT 31 DECEMBER 2001

	Note	2001		2000	
		£	£	£	£
FIXED ASSETS					
Intangible assets	11		52,361		—
Tangible assets	12		5,992,138		6,167,215
Investments	13		<u>248,482</u>		<u>872,401</u>
			6,292,981		7,039,616
CURRENT ASSETS					
Stocks	14	83,621		31,424	
Debtors	15	5,038,982		4,191,846	
Cash at bank and in hand		<u>53,420</u>		<u>386,120</u>	
		5,176,023		4,609,390	
CREDITORS: amounts falling due					
within one year	16	<u>(2,444,668)</u>		<u>(2,357,565)</u>	
NET CURRENT ASSETS					
			<u>2,731,355</u>		<u>2,251,825</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			9,024,336		9,291,441
CREDITORS: amounts falling due					
after more than one year	17		(775,331)		(1,154,469)
PROVISION FOR LIABILITIES					
AND CHARGES	19		(150,043)		(111,082)
DEFERRED INCOME	20		<u>(1,191,663)</u>		<u>(967,103)</u>
			<u>6,907,299</u>		<u>7,058,787</u>
CAPITAL AND RESERVES					
Called up share capital	22		612,314		610,535
Share premium account	23		1,919,801		1,892,441
Revaluation reserve	23		2,352,957		2,402,824
Profit and loss account	23		<u>2,022,227</u>		<u>2,152,987</u>
EQUITY SHAREHOLDERS' FUNDS					
			<u>6,907,299</u>		<u>7,058,787</u>

These financial statements were approved by the Board of directors on 21 March 2002.

Signed on behalf of the Board of directors

H R O HUMPHREYS

Director

Consolidated Cash Flow Statement

16

YEAR ENDED 31 DECEMBER 2001

	Note	2001 £	2000 £
Cash flow from operating activities	25	1,175,829	2,331,553
Returns on investments and servicing of finance	26	(133,841)	(163,087)
Taxation		(364,352)	(204,829)
Capital expenditure and financial investment	26	(670,217)	(644,373)
Acquisitions	26	(120,000)	—
Equity dividends paid		<u>(201,985)</u>	<u>(157,380)</u>
Cash (outflow)/inflow before use of liquid resources and financing		(314,566)	1,161,884
Financing	26	<u>(448,828)</u>	<u>(607,152)</u>
(Decrease)/increase in cash in the year		<u>(763,394)</u>	<u>554,732</u>
<hr/>			
Reconciliation of net cash flow to movement in net debt	27	2001 £	2000 £
(Decrease)/increase in cash in the year		(763,394)	554,732
Cash outflow from decrease in debt and lease financing		<u>477,967</u>	<u>696,252</u>
Change in net debt resulting from cash flows		(285,427)	1,250,984
New finance leases		—	(114,801)
Translation difference		<u>(28,315)</u>	<u>7,940</u>
Movement in net debt in the year		(313,742)	1,144,123
Net debt at 1 January		<u>(1,035,111)</u>	<u>(2,179,234)</u>
Net debt at 31 December		<u>(1,348,853)</u>	<u>(1,035,111)</u>

JOB 1700 — PROOF 04 — 03.04.2001

Notes to the Accounts

YEAR ENDED 31 DECEMBER 2001

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings.

Basis of consolidation

The consolidated accounts include the audited financial statements of the Company and all its subsidiaries for the year ended 31 December 2001.

Turnover

Turnover is the total amount, excluding value added tax, of sales invoices by the Group to third parties during the year.

Hardware and software sales are taken as turnover at the point of dispatch.

Maintenance income invoiced in advance for fixed periods is taken to income in equal monthly instalments over the period of the contract.

Acquisitions

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of net tangible assets.

Where the cost of acquisition exceeded the values attributable to such net assets, the difference was treated as purchased goodwill and was previously written off directly to reserves in the year of acquisition as a matter of accounting policy. The cumulative amount of goodwill written off against reserves as at 31 December 2001 amounted to £50,468 (2000 — £50,468). The negative goodwill added to reserves as at 31 December 2001 was £9,712 (2000 — £9,712).

In accordance with FRS 10, effective for years ending on or after 23 December 1998, goodwill is now capitalised and amortised over its useful economic life which the directors consider to be 20 years, unless the directors consider a shorter life is more appropriate. Negative goodwill is written back in line with the realisation of the non-monetary assets resulting in a period of seven years.

On any subsequent disposal of the businesses to which the above goodwill relates a charge or credit to the profit and loss account will be made.

Tangible fixed assets

Depreciation is provided to write off the cost, less estimated residual value, of all fixed assets, over their expected useful lives. The rates used are as follows:

Long leasehold buildings	2% straight line
Plant and machinery	10% – 15% straight line
Computer equipment	20% – 33% straight line
Fixtures and fittings	20% straight line
Motor vehicles	25% straight line
Ownership of software	5% straight line

In accordance with FRS 15, long leasehold buildings are carried at modified historical cost. A policy of annual revaluation has not been adopted.

Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Work in progress and finished goods — Direct cost of production plus attributable overheads according to stage of completion.

Research and development expenditure

Research and development expenditure is written off to the profit and loss account in the year it is incurred. Total expenditure in 2001 amounted to £4,021,359 (2000 — £3,644,057).

Government grants

These are received for capital expenditure and job creation. This income is amortised over seven years.

Notes to the Accounts (continued)

18

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for impairment.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associates based on audited financial statements for the year ended 31 December 2001. In the consolidated balance sheet, the shares in associates are shown at the Group's share of the net assets, excluding goodwill, of the associates.

Foreign currencies

It is the policy of the Group to translate the accounts of its foreign subsidiary undertakings to sterling at the rates of exchange ruling at the close of the financial year. Differences arising from changes in exchange rates are taken to reserves.

Exchange differences on normal trading transactions are reflected in the profits of the year.

Deferred taxation

Deferred taxation is provided at the anticipated rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Leased assets

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental charges for operating leases are written off in the period to which they relate.

Pension costs

The Company operates a defined benefit pension scheme covering the majority of its employees. The scheme is in the form of a trustee administered scheme held completely independent from the Company's finances. The cost of the pension scheme is charged to the profit and loss account over the expected service lives of participating employees.

Financial instruments

The Group does not enter into derivative contracts. The Group's only financial instruments are amounts receivable from customers, cash, foreign currency, bank overdrafts and bank loans.

2 ANALYSIS OF TURNOVER, OPERATING PROFITS AND NET ASSETS

(a) The turnover attributable to each of the Group's geographical markets by destination is:

	2001	2000
	£	£
United Kingdom	5,699,199	6,099,199
Europe	6,012,564	4,999,266
Americas	2,873,806	2,759,945
Far East	2,836,681	2,655,075
Rest of the World	825,872	497,574
	<u>18,248,122</u>	<u>17,011,059</u>

JOB 1700 — PROOF 04 — 03.04.2001

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

2 ANALYSIS OF TURNOVER, OPERATING PROFITS AND NET ASSETS (continued)

(b) A geographical analysis of turnover by origin, operating profit and net assets by location is set out below:

	Turnover		Operating profit		Net assets	
	2001	2000	2001	2000	2001	2000
	£	£	£	£	£	£
United Kingdom	13,818,469	13,432,317	1,040,054	1,921,381	6,909,579	6,389,552
Rest of the World	4,429,653	3,578,742	(51,388)	(199,167)	209,870	329,529
	<u>18,248,122</u>	<u>17,011,059</u>	<u>988,666</u>	<u>1,722,214</u>	<u>7,119,449</u>	<u>6,719,081</u>

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001	2000
	£	£
Directors' emoluments		
Fees	31,589	32,998
Management remuneration	327,626	285,028
Contributions in respect of a defined benefit pension scheme	25,338	22,748
	<u>384,553</u>	<u>340,774</u>
Directors' emoluments above include taxable benefits and Company pension contributions.		
Remuneration of highest paid director (salary and taxable benefits)	86,697	74,714
Contributions in respect of a defined benefit pension scheme	6,638	5,963
	<u>93,335</u>	<u>80,677</u>
Accrued pension benefits of highest paid director at 31 December 2001	33,300	27,900
	2001	2000
	No.	No.
Number of directors who are members of a defined benefit pension scheme	<u>4</u>	<u>4</u>
	£	£
Directors' aggregate gain on exercise of share options during the year at date of exercise	<u>—</u>	<u>2,481</u>
No director exercised share options during the year (2000 — 4).		
	No.	No.
Average number of persons employed		
Development and production staff	129	118
Sales and distribution staff	84	81
Administration staff	36	38
	<u>249</u>	<u>237</u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	7,964,446	6,877,123
Social security costs	828,898	781,042
Pension costs	455,994	394,234
	<u>9,249,338</u>	<u>8,052,399</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

4 OPERATING PROFIT

Operating profit is after charging:

	2001	2000
	£	£
Depreciation and amortisation		
Owned assets	462,336	397,619
Leased assets	132,009	292,722
Amortisation of goodwill	9,776	—
Rentals under operating leases		
Hire of plant and machinery	245,340	229,797
Other	243,813	211,511
Auditors' remuneration:		
Audit services — Company	25,500	25,000
Non-audit services — Company	14,942	17,046
Audit services — Group	33,682	30,480
Non-audit services — Group	29,213	41,510
	<u> </u>	<u> </u>
and crediting the following:		
Rental income	261,565	246,903
Government grants released to profit and loss account	64,290	56,424
	<u> </u>	<u> </u>

5 INTEREST RECEIVABLE

	2001	2000
	£	£
Bank deposit interest	22,772	20,291
	<u> </u>	<u> </u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2001	2000
	£	£
Bank overdraft interest	56,620	32,365
Other loans repayable within five years	64,050	94,183
Finance charges payable — finance leases	35,943	56,830
	<u> </u>	<u> </u>
	156,613	183,378
	<u> </u>	<u> </u>

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on profit for the year and comprises:

	2001	2000
	£	£
Corporation tax at 30% less double tax relief (2000 — 30%)	82,781	220,847
Associated undertakings	29,107	26,119
	<u> </u>	<u> </u>
	111,888	246,966
Movement in deferred taxation	38,961	98,105
Overseas taxation	143,065	167,878
	<u> </u>	<u> </u>
	293,914	512,949
	<u> </u>	<u> </u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

8 PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit for the financial year amounted to £22,886 (2000 — £1,363,352).

9 DIVIDENDS

	2001	2000
	£	£
Interim paid		
0.95p per Ordinary share (2000 — 0.85p per Ordinary share)	58,446	50,790
Final proposed		
2.40p per Ordinary share (2000 — 2.4p per Ordinary share)	<u>145,067</u>	<u>143,539</u>
	<u>203,513</u>	<u>194,329</u>

10 EARNINGS PER ORDINARY SHARE

Basic earnings per Ordinary share is calculated on profit after taxation and minority interests of £597,286 (2000 — £1,202,534) and on a share capital of 6,024,122 (2000 — 5,947,563) Ordinary shares of 10p each. The 'C' Ordinary shares do not form part of this calculation.

Diluted earnings per share, which take into consideration the dilutive effect of outstanding share options, are calculated on the profit attributable to ordinary shareholders of £597,286 (2000 — £1,202,534) and on a share capital of 6,134,092 (2000 — 6,138,682) Ordinary shares of 10p each.

11 INTANGIBLE ASSETS

	Group		Company	
	Goodwill	Total	Goodwill	Total
	£	£	£	£
Cost				
At 1 January 2001	—	—	—	—
Additions	<u>98,731</u>	<u>98,731</u>	<u>65,000</u>	<u>65,000</u>
At 31 December 2001	<u>98,731</u>	<u>98,731</u>	<u>65,000</u>	<u>65,000</u>
Amortisation				
At 1 January 2001	—	—	—	—
Charge for the year	<u>14,325</u>	<u>14,325</u>	<u>12,639</u>	<u>12,639</u>
At 31 December 2001	<u>14,325</u>	<u>14,325</u>	<u>12,639</u>	<u>12,639</u>
Net book value				
At 31 December 2001	<u>84,406</u>	<u>84,406</u>	<u>52,361</u>	<u>52,361</u>
At 31 December 2000	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

12 TANGIBLE FIXED ASSETS

	Long leasehold buildings	Ownership of software	Plant and machinery	Office equipment	Motor vehicles	Total
	£	£	£	£	£	£
(a) Group						
Cost or valuation						
At 1 January 2001	5,102,424	696,615	1,389,323	3,321,757	38,427	10,548,546
Additions	21,791	—	18,339	426,503	—	466,633
Disposals	—	—	—	(1,358)	—	(1,358)
Exchange differences	—	(160)	—	(13,299)	—	(13,459)
At 31 December 2001	<u>5,124,215</u>	<u>696,455</u>	<u>1,407,662</u>	<u>3,733,603</u>	<u>38,427</u>	<u>11,000,362</u>
Accumulated depreciation						
At 1 January 2001	101,871	594,340	683,031	2,636,805	38,427	4,054,474
Charge for the year	102,260	38,618	106,883	346,584	—	594,345
Disposals	—	—	—	(641)	—	(641)
Exchange differences	—	(690)	—	(7,569)	—	(8,259)
At 31 December 2001	<u>204,131</u>	<u>632,268</u>	<u>789,914</u>	<u>2,975,179</u>	<u>38,427</u>	<u>4,639,919</u>
Net book value						
At 31 December 2001	<u>4,920,084</u>	<u>64,187</u>	<u>617,748</u>	<u>758,424</u>	<u>—</u>	<u>6,360,443</u>
At 31 December 2000	<u>5,000,553</u>	<u>102,275</u>	<u>706,292</u>	<u>684,952</u>	<u>—</u>	<u>6,494,072</u>
(b) Company						
Cost or valuation						
At 1 January 2001	5,102,424	600,000	1,389,323	2,735,634	26,659	9,854,040
Additions	21,791	—	18,339	270,717	—	310,847
Disposals	—	—	—	(1,358)	—	(1,358)
At 31 December 2001	<u>5,124,215</u>	<u>600,000</u>	<u>1,407,662</u>	<u>3,004,993</u>	<u>26,659</u>	<u>10,163,529</u>
Accumulated depreciation						
At 1 January 2001	101,871	540,000	683,031	2,335,264	26,659	3,686,825
Charge for the year	102,260	30,000	106,883	246,064	—	485,207
Disposals	—	—	—	(641)	—	(641)
At 31 December 2001	<u>204,131</u>	<u>570,000</u>	<u>789,914</u>	<u>2,580,687</u>	<u>26,659</u>	<u>4,171,391</u>
Net book value						
At 31 December 2001	<u>4,920,084</u>	<u>30,000</u>	<u>617,748</u>	<u>424,306</u>	<u>—</u>	<u>5,992,138</u>
At 31 December 2000	<u>5,000,553</u>	<u>60,000</u>	<u>706,292</u>	<u>400,370</u>	<u>—</u>	<u>6,167,215</u>

Land and buildings were revalued in March 2000 by Lambert Smith Hampton, Consulting Surveyors and Valuers, at open market value with existing use basis at £5,000,000. If the property had not been revalued in the year, long leasehold land and buildings would have been carried in the balance sheet at 31 December 2001 at a cost of £2,880,953 (2000 — £2,859,162) and accumulated depreciation of £313,826 (2000 — £261,433). Land and buildings continue to be carried at this valuation being the frozen modified historical cost.

Leased assets

Included in tangible assets are assets held under finance leases and hire purchase contracts with a net book value of £550,801 (2000 — £682,810).

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

13 INVESTMENTS HELD AS FIXED ASSETS

(a) Group	Other investments £	Interests in associated undertakings £	Total £
Cost			
At 1 January 2001	282,752	100,876	383,628
Additions	299,394	—	299,394
Exchange movement	—	(2,612)	(2,612)
At 31 December 2001	<u>582,146</u>	<u>98,264</u>	<u>680,410</u>
Share of profits retained			
At 1 January 2001	—	198,462	198,462
Profits retained in year	—	73,633	73,633
Exchange movement	—	(16,406)	(16,406)
At 31 December 2001	<u>—</u>	<u>255,689</u>	<u>255,689</u>
Provisions			
At 1 January 2001	(38,661)	—	(38,661)
Provided for in year	(104,000)	—	(104,000)
At 31 December 2001	<u>(142,661)</u>	<u>—</u>	<u>(142,661)</u>
Negative goodwill			
At 1 January 2001		(31,842)	(31,842)
Amortisation during year		4,549	4,549
At 31 December 2001		<u>(27,293)</u>	<u>(27,293)</u>
Net book value			
At 31 December 2001	<u>439,485</u>	<u>326,660</u>	<u>766,145</u>
At 31 December 2000	<u>244,091</u>	<u>267,496</u>	<u>511,587</u>

Additions in other investments reflect the shares purchased by Delcam Trustees Limited in the Group. 90,981 Ordinary shares, each 10p nominal value, were purchased on the open market for a consideration of £186,124. 78,660 'C' Ordinary shares, each 10p nominal value, were acquired during the year upon the completion of the Employee Share Scheme. The shares were allotted upon the adoption by Delcam Trustees Limited of the debt of £113,270 previously owed to the Company by the employees in the Scheme. The market value of the shares held at 31 December 2001 was £410,612, and £488,140 at 9 March 2001. A provision of £104,000 has been made at 31 December 2001 for the diminution in the value of the shares held.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

13 INVESTMENTS HELD AS FIXED ASSETS (continued)

(b) Company

	Shares in Group undertakings £	Shares in associated undertakings £	Other investments £	Total £
Cost				
At 1 January 2001	809,400	63,001	38,661	911,062
Additions in year	47,392	—	—	47,392
At 31 December 2001	856,792	63,001	38,661	958,454
Provisions				
At 1 January 2001	—	—	(38,661)	(38,661)
Provided for in the year	(671,311)	—	—	(671,311)
At 31 December 2001	(671,311)	—	(38,661)	(709,972)
Net book value				
At 31 December 2001	185,481	63,001	—	248,482
At 31 December 2000	809,400	63,001	—	872,401

Provision has been made against the cost of investments in overseas subsidiaries to reduce the carrying value to the lower of share of the net assets of those subsidiaries or zero.

Group undertakings

The Company has shareholdings in the following companies:

Group undertaking	Shareholding	Country of incorporation/ registration and operation	Investment value £
Delcam Trustees Limited	100%	England	1
Delcam Systems Limited	100%	England	2
Delcam Italia SRL	97.5%	Italy	93,580
Delcam Malaysia	100%	Malaysia	41,086
Delcam International GmbH	100%	Germany	89,201
Delcam Japan	75.3%	Japan	369,399
Delcam Inc	100%	Canada	30,013
Delcam France	100%	France	124,290
Delcam China	70.6%	China	109,220
			<u>856,792</u>

Delcam Trustees Limited is a trust company set up on behalf of the employees Benefit Trust.

Delcam Systems Limited is a dormant company. The other Group undertakings carry on the business of the supply of cadcam systems to overseas markets.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

13 INVESTMENTS HELD AS FIXED ASSETS (continued)

Acquisitions

During the year the following additions were made to the cost of shares held in Group undertakings:

— The Company paid £36,991 to increase the shareholding in Delcam Japan by 10.1% to 75.3% and paid £10,401 to increase the shareholding in Delcam France by 10% to 100% by acquisition of the existing shares. Goodwill arising of £33,731 has been capitalised and amortised over 20 years (note 11).

Other acquisitions

— On 7 June 2001, the Group paid £120,000 to acquire the assets and trade of Alcami. This has been accounted for using the acquisition method as follows:

	£
Net assets acquired	
Office equipment	40,000
Stock	15,000
	55,000
Goodwill	65,000
	120,000
Satisfied by:	
Cash	120,000

In the opinion of the directors the fair value of net assets acquired equates to book value.

The goodwill is being amortised over a period of 3 years (note 11).

The individual results and cash flow effects of this business are not sufficiently material to warrant separate disclosure. The acquired business has now been fully integrated into Delcam Plc's accounting systems. As such, the directors are unable to calculate meaningful cash flow effects of the acquired business without incurring undue expense and delay.

The results prior to acquisition are as follows:

	Profit after taxation
	£
1 January 2001 to the date of acquisition	8,113
Preceding financial year	10,471

Associated undertakings

The Company has shareholdings in the following active companies which have been accounted for on an equity basis:

	Shareholding	Country of incorporation and operation
Associated undertaking		
Hankook Delcam	30%	Korea
Delcam (North) Programming Services	30%	England
Delcam Taiwan	24.45%	Taiwan
Delcam Desarrollo	25%	Spain

Each of the associated undertakings carry on the business of agents supplying cadcam systems to overseas markets, except Delcam (North) Programming Services which supplies cadcam programming services in the UK.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

13 INVESTMENTS HELD AS FIXED ASSETS (continued)

(c) Information relating to other investments

These investments are not accounted for on an equity basis as the Group cannot exercise significant influence because of the reliability of the information available. The effect of their results on the Group is considered to be immaterial.

Investment	Shareholding	Country of incorporation and operation
Delcam Spb	64%	Russia
Delcam Ural	50%	Russia
Delcam BRNO	33%	Czech Republic
Delimex Limited	50%	Bulgaria
Delcam Samara	30%	Russia

The directors are of the opinion that the value of the investments and amounts receivable are not less than the amounts stated at the balance sheet date and the figures are not material.

(d) Related party transactions

During the year the Company made transactions during the course of normal trading with related parties as detailed below:

	2001	2000
	£	£
Sales to Group undertakings	2,122,300	1,832,557
Sales to associated undertakings	1,184,981	980,262
Purchases from Group undertakings	381,306	473,911
Purchases from associated undertakings	976	3,322

The year end balances with related parties are included within notes 15 and 16.

14 STOCKS

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Work in progress	74,209	—	74,209	—
Finished goods and goods for resale	112,126	159,673	9,412	31,424
	<u>186,335</u>	<u>159,673</u>	<u>83,621</u>	<u>31,424</u>

15 DEBTORS

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Trade debtors	4,091,540	3,435,227	2,032,141	1,808,857
Amounts owed by subsidiary undertakings	—	—	2,343,680	1,371,739
Amounts owed by undertakings in which the Company has a participating interest	390,505	301,636	390,505	301,636
Other debtors	174,018	342,488	12,443	417,334
Prepayments and accrued income	326,080	315,105	260,213	292,280
	<u>4,982,143</u>	<u>4,394,456</u>	<u>5,038,982</u>	<u>4,191,846</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Bank overdraft (note 18)	756,135	219,774	410,464	—
Bank loans (note 18)	200,000	233,337	200,000	233,337
Trade creditors	950,708	899,118	580,083	652,322
Other taxation and social security	678,282	546,993	338,974	373,599
Other creditors	373,355	435,077	314,120	324,002
Corporation tax	134,792	273,298	113,342	181,778
Accruals and deferred income	275,204	359,378	198,443	239,321
Finance lease obligations (note 18)	144,175	209,667	144,175	209,667
Dividends payable	145,067	143,539	145,067	143,539
	<u>3,657,718</u>	<u>3,320,181</u>	<u>2,444,668</u>	<u>2,357,565</u>

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Bank loans	550,000	749,999	550,000	749,999
Finance lease obligations	<u>225,331</u>	<u>404,470</u>	<u>225,331</u>	<u>404,470</u>
	<u>775,331</u>	<u>1,154,469</u>	<u>775,331</u>	<u>1,154,469</u>

18 FINANCIAL INSTRUMENTS

The Group's policies as regards financial instruments are set out in the Directors' Report on page 8 and the accounting policies on page 18.

The Group does not trade in financial instruments.

Short-term debtors and creditors have been excluded from all disclosures below except the currency profile.

Financial liabilities

All financial liabilities as at 31 December 2001 are denominated in sterling and subject to floating rates with the exception of finance leases. The reference rate for floating rate financial liabilities is United Kingdom base rates.

Total financial liabilities in the Group are £3,067,304. These comprise £750,000 bank loans that bear interest at 1.75% above base rate, bank overdraft of £756,135, obligations under finance lease contracts of £369,506 and deferred income of £1,193,663. The bank loans and overdraft are secured by fixed and floating charges over the Group's tangible assets.

Borrowing facilities

Overdraft facilities are reviewed periodically in the normal course of business. The Group has no committed undrawn loan facilities. The Group had £634,865 (2000 — £1,174,636) of committed undrawn overdraft facilities at 31 December all in one year or less. The Group had no other undrawn borrowing facilities.

Fair values of financial assets and liabilities

The directors consider that the fair value of the Group's financial assets and liabilities materially equate to their book values. Fair values of fixed rate liabilities have been assessed by reference to the discounted cash flows.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

18 FINANCIAL INSTRUMENTS (continued)

Maturity profile of financial liabilities

	Bank borrowings £	Finance leases £	Deferred income £	2001 Total £	Bank borrowings £	Finance leases £	Deferred income £	2000 Total £
Within 1 year or less or on demand	956,135	144,175	994,966	2,095,276	453,111	209,667	819,955	1,482,733
More than 1 year but not more than 2 years	200,000	154,019	152,411	506,430	200,000	263,192	83,536	546,728
More than 2 years but not more than 5 years	350,000	71,312	36,428	457,740	549,999	141,278	69,289	760,566
More than 5 years	—	—	7,858	7,858	—	—	—	—
Gross financial liabilities	1,506,135	369,506	1,191,663	3,067,304	1,203,110	614,137	972,780	2,790,027

Interest rate profile

	Total £	Floating rate £	Fixed rate £	Non-interest bearing £	Fixed rate financial liabilities		Non-interest bearing
					Weighted average interest rate %	Weighted period for which the rate is fixed (years)	Weighted average period until maturity (years)
At 31 December 2001							
Sterling	2,721,633	1,160,464	369,506	1,191,663	7.92	2.0	1.3
Euro	345,671	345,671	—	—	—	—	—
	3,067,304	1,506,135	369,506	1,191,663			
At 31 December 2000							
Sterling	2,570,253	983,336	614,137	972,780	7.93	2.1	1.3
Euro	219,774	219,774	—	—	—	—	—
	2,790,027	1,203,110	614,137	972,780			

Interest on floating rate assets and liabilities is based on the relevant country's bank base rates.

Financial assets

Financial assets comprise cash at bank and in hand of £526,788 (2000 — £782,136) and are all at floating rate. The sterling equivalent of this amount was as follows:

	2001 £	2000 £
Sterling	65,903	386,120
Euro	195,402	114,077
Japanese Yen	192,295	151,466
US Dollar	2,950	17,014
Malaysian Ringgit	34,500	47,399
Yuan	35,738	66,060
	526,788	782,136

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

18. FINANCIAL INSTRUMENTS (continued)

Currency profile

The Group has the following cash deposits, overdrafts and other short-term debtors and creditors in foreign currency. The table below states the sterling equivalent.

	Canadian			2001	Canadian			2000
	Sterling	Yuan	Dollar	Total	Sterling	Yuan	Dollar	Total
	£	£	£	£	£	£	£	£
US Dollar	2,010,827	13	10,799	2,021,639	1,874,317	20,076	1,083	1,895,476
Euro	1,736,546	—	—	1,736,546	1,501,321	—	—	1,501,321
Japanese Yen	414,797	—	—	414,797	248,878	—	—	248,878
	<u>4,162,170</u>	<u>13</u>	<u>10,799</u>	<u>4,172,982</u>	<u>3,624,516</u>	<u>20,076</u>	<u>1,083</u>	<u>3,645,675</u>

None of the other subsidiaries hold currency in denominations other than their own local currency.

19 PROVISION FOR LIABILITIES AND CHARGES

	Group and Company £
Deferred taxation	
Balance at 1 January 2001	111,082
Movement in the year	<u>38,961</u>
Balance at 31 December 2001	<u>150,043</u>

The amounts of deferred taxation provided and not provided in the accounts are:

	Provided		Not provided	
	2001	2000	2001	2000
Group and Company	£	£	£	£
Capital allowances in excess of depreciation	172,813	137,179	—	—
Other timing differences	(22,770)	(26,097)	—	—
Taxation on valuation surplus	—	—	737,400	743,000
	<u>150,043</u>	<u>111,082</u>	<u>737,400</u>	<u>743,000</u>

20 DEFERRED INCOME

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Maintenance income to be recognised within one year	930,681	763,526	930,681	757,849
Maintenance income to be recognised after more than one year	88,125	27,107	88,125	27,107
Other income to be recognised within one year	64,285	56,429	64,285	56,429
Other income to be recognised after more than one year	<u>108,572</u>	<u>125,718</u>	<u>108,572</u>	<u>125,718</u>
	<u>1,191,663</u>	<u>972,780</u>	<u>1,191,663</u>	<u>967,103</u>

Deferred maintenance income represents amounts invoiced in advance in respect of contracts for the provision of hardware and software maintenance. Other deferred income represents grant income received being amortised over seven years.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

21 EQUITY MINORITY INTERESTS

	£
At 1 January 2001	64,331
Share of profit for the year	(37,635)
Difference on exchange	<u>(14,640)</u>
At 31 December 2001	<u>12,056</u>

22 CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised		
7,750,000 Ordinary shares of 10p each	775,000	775,000
150,000 'C' Ordinary shares of 10p each	<u>15,000</u>	<u>15,000</u>
	<u>790,000</u>	<u>790,000</u>
Issued, called up, allotted and fully paid		
6,044,478 (2000 — 5,978,781) Ordinary shares of 10p each	604,448	597,878
Called up, allotted and not fully paid		
78,660 (2000 — 126,567) 'C' Ordinary shares of 10p each	<u>7,866</u>	<u>12,657</u>
	<u>612,314</u>	<u>610,535</u>

During the year 12,012 shares were issued for 12,012 options that were exercised for a total consideration of £18,739 and 5,778 new shares were issued for a total cash consideration of £10,040. The shares were Ordinary shares of 10p each nominal value. No options were granted during the year.

During the year 47,907 'C' Ordinary shares were fully paid and converted into 47,907 Ordinary shares.

Delcam Trustees Limited, a 100% owned subsidiary company, held 208,481 'A' Ordinary shares and 78,660 'C' Ordinary shares at 31 December 2001.

The 'C' Ordinary shares have no rights to vote, attend general meetings or any dividend but will automatically convert into an equal number of Ordinary shares upon being fully paid up. These shares are classified as non-equity until that time.

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

23 RESERVES

	Group and Company		Group	Company
	Share premium account	Revaluation reserve	Profit and loss account	Profit and loss account
	£	£	£	£
At 1 January 2001	1,892,441	2,402,824	1,805,722	2,152,987
Shares issued	27,360	—	—	—
Profit for the year	—	—	597,286	22,886
Dividends paid and proposed	—	—	(203,513)	(203,513)
Exchange rate loss	—	—	(16,406)	—
Transfer from revaluation reserve	—	(49,867)	—	—
Transfer to profit and loss account	—	—	49,867	49,867
At 31 December 2001	<u>1,919,801</u>	<u>2,352,957</u>	<u>2,232,956</u>	<u>2,022,227</u>

	Group	
	2001	2000
	£	£
Other reserves		
Foreign exchange fluctuations reserve	(8,291)	(2,153)
Capital reserve	<u>9,712</u>	<u>9,712</u>
	<u>1,421</u>	<u>7,559</u>
Foreign exchange fluctuations reserve	£	
At 1 January 2001	(2,153)	
Movement in the year	<u>(6,138)</u>	
At 31 December 2001	<u>(8,291)</u>	
Capital reserve	£	
At 1 January 2001 and 31 December 2001	<u>9,712</u>	

24 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group	
	2001	2000
	£	£
Profit for the financial year	597,286	1,202,534
Dividends paid and proposed	(203,513)	(194,329)
Movement in exchange fluctuation reserve	(6,138)	5,856
Exchange rate (loss)/gain	(16,406)	(15,694)
Share capital issued	1,779	5,712
Share premium on new issue	<u>27,360</u>	<u>83,388</u>
Net addition to shareholders' funds	400,368	1,087,467
Opening shareholders' funds	<u>6,719,081</u>	<u>5,631,614</u>
Closing shareholders' funds	<u>7,119,449</u>	<u>6,719,081</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

25 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2001	2000
	£	£
Operating profit	988,666	1,722,214
Depreciation	594,345	690,341
Amortisation of goodwill	9,776	—
Release of government grants	(64,290)	(56,424)
Loss on tangible fixed assets written off	—	117,990
Loss on investments written off	(104,000)	66,583
Profit on sale of tangible fixed assets	(93)	—
Profit on sale of investments	—	(130,000)
Increase in stocks	(11,662)	(58,518)
(Increase)/decrease in debtors	(587,686)	207,562
Increase/(decrease) in creditors	352,643	(227,575)
Exchange differences	(1,870)	(620)
Net cash inflow from operating activities	<u>1,175,829</u>	<u>2,331,553</u>

26 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2001	2000
	£	£
Returns on investments and servicing of finance		
Interest received	22,772	20,291
Interest paid	(120,670)	(126,548)
Interest element of finance lease rental payments	(35,943)	(56,830)
Net cash outflow for returns on investments and servicing of finance	<u>(133,841)</u>	<u>(163,087)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(426,633)	(545,557)
Proceeds from disposal of tangible fixed assets	810	—
Proceeds from disposal of investments	—	150,000
Government grants received	55,000	—
Payments to acquire investments	(299,394)	(248,816)
Net cash outflow for capital expenditure and financial investment	<u>(670,217)</u>	<u>(644,373)</u>
Acquisitions		
Office equipment	(40,000)	—
Stock	(15,000)	—
Goodwill	(65,000)	—
Net cash outflow from acquisitions	<u>(120,000)</u>	<u>—</u>
Financing		
Loan repayments	(233,336)	(333,332)
Proceeds from issue of share capital	29,139	89,100
Capital element of finance lease repayments	(244,631)	(362,920)
Net cash outflow from financing	<u>(448,828)</u>	<u>(607,152)</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

27 ANALYSIS OF NET DEBT

	At 1 Jan 2001 £	Cash flow £	Exchange movements £	Other non-cash changes £	At 31 Dec 2001 £
Cash in hand and at bank	782,136	(231,327)	(24,021)	—	526,788
Bank overdraft	(219,774)	(532,067)	(4,294)	—	(756,135)
		<u>(763,394)</u>			
Debt due within one year	(233,337)	233,337	—	(200,000)	(200,000)
Debt due after one year	(749,999)	(1)	—	200,000	(550,000)
Finance leases	(614,137)	244,631	—	—	(369,506)
		<u>477,967</u>			
	<u>(1,035,111)</u>	<u>(285,427)</u>	<u>(28,315)</u>	<u>—</u>	<u>(1,348,853)</u>

28 MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £Nil (2000 — £114,801).

29 PENSION COSTS

The contributions paid to the defined benefit scheme amounted to £455,994 (2000 — £394,234). Contributions outstanding at the year end were £35,977 (2000 — £39,529).

The latest actuarial valuation on the scheme was performed as at 6 April 1999 using the defined accrued benefit method. This disclosed a long-term deficit of £400,000, representing 10% of assets on the valuation basis adopted. The main actuarial assumption was that the investment returns would exceed the rate of salary increases by 2%. In the opinion of the actuary the current and future contribution rates will eliminate the deficit over a reasonable period from the valuation date and the scheme will be able to fully meet its liabilities. The funding level for the Minimum Funding Requirement ("MFR") was sufficiently adequate at 120% of the scheme's liabilities.

That valuation showed that the actuarial value of the scheme's assets were £4,808,526.

The variation in pension costs is in line with increases in staff salaries and new members joining the scheme.

Financial Reporting Standard FRS 17 — Retirement Benefits

The Company operates a defined benefit scheme called the Delcam Retirement Benefits Scheme ("the Scheme") and the last full funding valuation on it was carried out as at 6 April 1999. A qualified independent actuary updated the results of that valuation to 31 December 2001 to obtain the figures in this disclosure note.

The Projected Unit valuation method has been used.

The major financial assumptions used by the actuary were:

	At year end 31 December 2001
Rate of increase in salaries	4.23%
Rate of increase in pensions in payment	2.73%
Discount rate	6.08%
Inflation assumption	<u>2.73%</u>

Notes to the Accounts (continued)

YEAR ENDED 31 DECEMBER 2001

29. PENSION COSTS (continued)

The assets in the Scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December 2001	Value at 31 December 2001 £ millions
Equities	7.04%	4.90
Gilts	5.04%	0.86
Cash	2.73%	0.28
Total market value of assets		6.04
Present value of Scheme liabilities		(8.44)
Deficit in the Scheme		(2.40)
Related deferred tax liability		0.72
Net pension liability		(1.68)

If the above amounts were recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	2001 Reserves £ millions	2001 Net assets £ millions
Excluding pension deficit	2.23	7.12
Pension deficit	(1.68)	(1.68)
Including pension deficit	0.55	5.44

30 FINANCIAL COMMITMENTS

Capital commitments

At 31 December 2001, the Group and Company had no capital commitments (2000 — £Nil).

Operating lease commitments

At 31 December 2001, the Group and Company had annual commitments under non-cancellable other operating leases as set out below:

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Land and buildings				
Leases which expire:				
Within two to five years	181,350	154,959	—	—
After five years	55,860	55,860	55,860	55,860
	<u>237,210</u>	<u>210,819</u>	<u>55,860</u>	<u>55,860</u>
Other leases				
Leases which expire:				
Within one year	14,034	12,302	14,034	12,302
Within two to five years	226,179	277,566	80,899	157,137
	<u>240,213</u>	<u>289,868</u>	<u>94,933</u>	<u>169,439</u>

The Company has entered into other guarantees and indemnities of a trading nature in the normal course of business.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Delcam Plc will be held at Delcam Plc, Small Heath Business Park, on 30 April 2002 at 3.00 pm for the following purposes.

35

AS ORDINARY BUSINESS

- 1 To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2001, together with the report of the auditors.
- 2 To declare a final dividend on the Ordinary shares of 2.4p per share for the year ended 31 December 2001.
- 3 To re-elect Mr H R O Humphreys, who retires by rotation, as a director of the Company.
- 4 To re-elect Mr C P Martell, who retires by rotation, as a director of the Company.
- 5 To reappoint the auditors and to authorise the directors to fix their remuneration.

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

- 6 That the Company is, pursuant to section 166 of the Companies Act 1985, hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 10p ("Ordinary shares") each in the capital of the Company provided that:
 - (a) the maximum number of ordinary shares hereby authorised to be purchased is 604,447 (representing 10 per cent of the Company's issued ordinary share capital);
 - (b) the minimum price which may be paid for an ordinary share is 10p per ordinary share (exclusive of any applicable taxes and expenses);
 - (c) the maximum price (exclusive of any applicable taxes and expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the market values for an ordinary share published by the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;
 - (d) the authority hereby conferred shall expire on 30 October 2003; and
 - (e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract.
- 7 That the directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 to exercise all powers of the Company to allot equity securities of the Company (as defined in Section 94 of that Act) for cash as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that the power hereby conferred shall be limited to
 - (i) the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares and the holders of any other shares or securities of the Company which by their terms are entitled to participate in such rights issue where the equity securities allotted are in proportion (as nearly as may be) to, on a record date fixed by the directors, the respective number of shares held by such shareholders; and

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- (ii) the allotment (otherwise than pursuant to paragraph (i) above) wholly for cash of equity securities up to an aggregate nominal amount of £30,222 (approximately five per cent of the issued Ordinary Share capital of the Company) and unless previously renewed, revoked or varied such power shall expire on the earlier of 15 months from the date on which this Resolution is passed and the conclusion of the Annual General Meeting falling in 2003, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

K SINGH

Secretary
Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ

Notes:

- 1 A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, Forms of Proxy must be lodged at the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the meeting. By signing and returning a Form of Proxy, a shareholder will not be precluded from attending and voting in person should he or she so wish.
- 2 The register of directors' interests maintained pursuant to Section 325 of the Act and copies of the contracts of service of directors will be available for inspection at the registered office of the Company during usual business hours from the date of this notice until the date of the Annual General Meeting and at the meeting itself.



OFFICE USE
Accepted
Shares

Form of Proxy

I/We
 (Name in Block Capitals)

of

being (a) member(s) of Delcam Plc, HEREBY APPOINT the Chairman of the Meeting or

..... as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30 April 2002 and at any adjournment thereof and direct him/her to vote on the resolutions set out in the Notice of Meeting as indicated below.

SIGNED this day of 2002 Signature

Please indicate with an X in the spaces below how you wish your votes to be cast. Unless otherwise indicated, the proxy will vote or abstain as he/she thinks fit.

Ordinary Business	For	Against
1 To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2001, together with the report of the auditors.		
2 To declare a final dividend on the Ordinary shares of 2.4p per share for the year ended 31 December 2001.		
3 To re-elect Mr H R O Humphreys, who retires by rotation, as a director of the Company.		
4 To re-elect Mr C P Martell, who retires by rotation, as a director of the Company.		
5 To reappoint the auditors and to authorise the directors to fix their remuneration.		
Special Business		
6 To approve the purchase of own shares.		
7 To disapply Section 89 of the Companies Act 1985 in respect of pre-emption rights.		

NOTES

1. A member may appoint a proxy of his/her own choice (who need not be a member of the Company). If such an appointment is made, the words "the Chairman of the Meeting or" should be deleted and the name and address of the person appointed as proxy should be inserted in the space provided.
2. Any alteration in this Form of Proxy should be initialled.
3. Completion and return of the Form of Proxy will not preclude a member from attending and voting at the Meeting should he/she subsequently decide to do so.
4. If the appointor is a Corporation this Form of Proxy must be under its Common Seal, or under the hand of some officer of the Corporation duly authorised in writing in that behalf.
5. To be valid, this Form of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA, not less than 48 hours before the Meeting.
6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s). Seniority will be determined by the order in which the names stand in the Register of members in respect of the joint holding.

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BUSINESS REPLY SERVICE
Licence No. BM3865

2



Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3BR

First fold

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and tuck in flap opposite